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## ARIZONA CORPORATION COMMISSION

## OPEN MEETING AGENDA ITEM

## Memo

**To:** Chairwoman Lea Márquez Peterson; Commissioners Sandra D. Kennedy, Justin Olson, Anna Tovar, and Jim O'Connor; All Parties of Record

**From:** Gordon L. Fox, Special Assistant to the Commission; Sarah N. Harpring, Assistant Chief Administrative Law Judge

**Date:** October 29, 2021

**Re:** **Docket No. E-01345A-19-0236**, Revenue Requirement Change Resulting from Amendments Approved at Open Meetings of October 4-6 and 26-27, 2021

The following amendments passed, in the following order, at the Open Meeting of October 4-6, 2021:

Amendment
Márquez Peterson #3
Márquez Peterson Alternative #4
Olson #1
Olson #6
O'Connor #1
O'Connor #4
Kennedy #13
Tovar #2
Kennedy #10 with Tovar friendly amendment increasing bill credit to \$50/month as per Tovar #2

The following additional amendments passed, in the following order, at the Open Meeting of October 26 and 27, 2021:

<b>Amendment</b>
O'Connor & Tovar # 1 (Proposed Compromise with Footnote)
Revised Kennedy #15
Márquez Peterson #5
Tovar #3
Kennedy #11
Kennedy #14 (with verbal)
Kennedy #12
Tovar #4 (with verbal)
Kennedy #9
Revised Márquez Peterson #1 (with verbal)
Hearing #1
Hearing #2

These combined amendments would produce the following rate base and revenue requirement results, as compared to the APS Amended Application and the corrected Recommended Opinion and Order ("ROO"):

All \$ amounts are in thousands	<b>APS Amended Application</b>	<b>ROO</b>	<b>Commission-Adopted Amendments</b>
OCRB	\$8,896,268	\$8,325,497	\$8,607,103
RCND	\$15,734,140	\$15,163,369	\$15,444,975
FVRB	\$12,315,204	\$11,744,433	\$12,026,039
FVI	\$3,418,936	\$3,418,936	\$3,418,936
TY Operating Revenues	\$3,437,440	\$3,437,440	\$3,437,440
TY Operating Income	\$648,909	\$664,843	\$663,423
Current Rate of Return on OCRB	7.29%	7.99%	7.71%

Required Operating Income on OCRB	\$652,096	\$571,962	\$569,790
Required Rate of Return on OCRB	7.33%	6.87%	6.62%
Operating Income Deficiency on OCRB	\$3,187	(\$92,881)	(\$93,633)
Gross Revenue Conversion Factor	1.3346	1.3346	1.3346
Increase in Base Revenue Requirement Based on OCRB	\$4,253	(\$123,959)	(\$124,962)
Required Rate of Return with FVI	5.51%	4.95%	4.77%
FVI Revenue	\$35,973 <sup>1</sup>	\$12,528 <sup>2</sup>	\$5,141
Requested/Required Increase/Decrease in Base Revenue Requirement	\$40,226	(\$111,431)	<b>(\$119,821)</b>
Required Base Rate Revenue Based on FVRB	\$3,477,666	\$3,326,009	\$3,317,619

Customer bills are impacted by adjustor mechanism surcredits and surcharges in addition to base rates. In this proceeding, the Commission has adopted a net \$115 million in transfers of billings from adjustor mechanisms to base rates, comprised of \$119 million in TEAM surcredits and \$4 million in combined EIS and REAC surcharges. Taking into consideration the \$115 million impact from transfers in billings between adjustor surcharges and base rates, the net decrease in annual billings to customers is \$4.821 million, calculated as follows (all \$ amounts are in thousands):

Required Decrease in Base Revenue Requirement	(\$119,821)
TEAM Adjustor Transfer Impact to Annual Customer Billings	+\$119,000

<sup>1</sup> APS's FVI revenue was described by APS as "After Tax Return on Fair Value Increment," although APS's requested revenue increase of \$40.226 million is comprised of \$4.253 million based on OCRB plus \$35.973 million of FVI revenue, which must be comprised of operating income and income taxes, for which our estimated calculation is \$27.351 million in operating income and \$8.622 million in income taxes. (See LFE APS-87 at sched. A-1.)

<sup>2</sup> The FVI revenue is comprised of \$9.387 million in operating income and \$3.141 million in income taxes. Original cost operating income of \$571.962 million + FVI operating income of \$9.387 million = total operating income of \$581.349 million.

EIS and REAC Adjustor Transfer Impact to Annual Customer Billings	(\$4,000)
<b>Net Decrease in Annual Customer Billings After Adjustor Transfers</b>	<b>(\$4,821)</b>

The \$115 million net adjustors transfer amount does not include the additional \$4.83 million that will be billed to customers through the REAC surcharge when it is next adjusted (\$3.33 million to the Nation + \$1 million to the Tribe + \$0.5 million to the Navajo County Communities), resulting from the adoption of O'Connor & Tovar #1. The \$3.33 million will be included in the REAC surcharge annually for three consecutive years, while the additional \$1.5 million will be included only in the first year. In addition, APS is authorized to spend up to \$1.25 million toward home and business electrification projects within the Nation and another \$1.25 million toward home and electrification projects within the Hopi reservation and, to the extent those funds are spent, would be entitled to recover those funds from its customers through the REAC. Those impacts are reflected below (all \$ amounts are in thousands):

	Effective Date of This Decision	Year 1 REAC CCT Collection	Year 2 REAC CCT Collection	Year 3 REAC CCT Collection
Net Decrease in Annual Customer Billings After Adjustor Transfers	(\$4,821)	(\$4,821)	(\$4,821)	(\$4,821)
Mandated CCT Funds To Be Collected		+\$4,833	+\$3,333	+\$3,333
<b>Net Decrease/Increase in Annual Customer Billings</b>		<b>\$12</b>	<b>(\$1,488)</b>	<b>(\$1,488)</b>
<u>Discretionary</u> CCT Funds To Be Collected If Spent		+\$2,500		
<b>Net Decrease/Increase in Annual Customer Billings</b>		<b>\$2,512</b>		

On this 29th day of October, 2021, the foregoing document was filed with Docket Control as a Hearing Division Memorandum, and copies of the foregoing were mailed on behalf of the Hearing Division to the following who have not consented to email service. On this date or as soon as possible thereafter, the Commission's eDocket program will automatically email a link to the foregoing to the following who have consented to email service.

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